

MADISON'S LUMBER REPORTER

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News & Updates

Madison's Resumes

We hope email subscribers enjoyed the bonus issues sent by our intrepid market analyst Zara Heartwood during *Madison's* traditional two-week break over the holiday season. In a complete reversal of the usual trend, lumber demand did not ease off over the winter holidays, although production did take some downtime. This first week of the New Year proves the extended downturn for North America's lumber and panel industry is firmly behind us. The scope and magnitude of that recovery remains to be seen.

As always, *Madison's* will be diligently following developments in what is sure to be a turbulent start to 2011 for the forest industry.

Kiln Dried Fir

The fir market ran on all 12 cylinders this week and came close to the red line. As the bears receded into the woods, market bulls got into their sports cars and tuned their horns for the first time in over two years. As had been predicted before the holiday shutdowns, the weather turned cold while the mills were idle. That meant more days of production lost while thawing uncooperative machinery.

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Canadian Lumber Into India

An arbitrary bureaucratic impediment to Canadian softwood lumber imports into India has finally been solved. Due to protracted efforts on the part of both Canadian federal and British Columbian provincial governments as well as various agencies, organizations, and lumber producers, India will finally allow western spruce-pine-fir lumber from Canada with only heat treatment. Fumigation will no longer be required.

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US Home Sales

November existing-home sales rose less than expected, though prices stabilized as fewer houses remained on the market, while demand for new homes in the US rose in November, but prices fell, signaling continued weakness in the ailing housing market.

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Alberta Pine Beetle Battle

The lack of a major mountain pine beetle infight in 2010 and an unexpected cold snap during the 2009/2010 winter season have combined to help keep the beetle population in Alberta low. However significant defensive activity continues in that province.

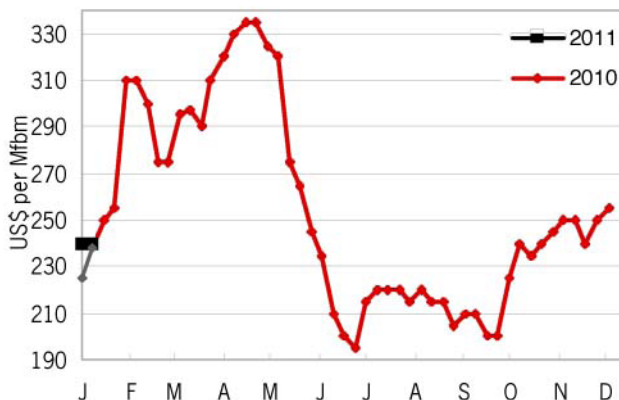
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2011 Lumber Industry Starts with a Bang

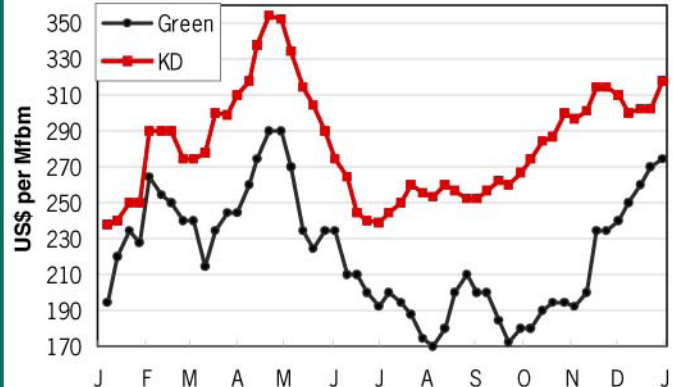
As opposed to the usual softening of lumber prices toward the end of December, this winter season is seeing both demand and prices remaining firm or even rising. *Madison's* covers a flurry of news from across Canada and the US this week on Page 6 and Page 7 of your weekly *Reporter*.

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WSPF KD 2x4 PET Studs



Douglas Fir KD vs. Green #2&Btr 2x4



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	322	316	+6	276	+46	212	+110
WSPF KD R/L 2x6	306	302	+4	274	+32	214	+92
WSPF KD R/L 2x8	286	285	+1	280	+6	222	+64
WSPF KD R/L 2x10	345	340	+5	325	+20	305	+40
WSPF KD PET 2x4 Stud	270	260	+10	245	+25	225	+45
Douglas Fir Green R/L 2x4	275	270	+5	200	+75	195	+80
Douglas Fir Green R/L 2x10	340	324	+16	285	+55	235	+105
ESPF KD 2x4 8ft Stud	325	315	+10	300	+25	285	+40
OSB Ontario 7/16" (CDN\$)	210	195	+15	200	+10	200	+10

Weekly News

India, Softwood Lumber

CONTINUED Former BC Minister of Forests, and current Liberal party leadership hopeful, Mike De Jong, announced at Carrier Lumber in Prince George on Wednesday that India's Minister of Agriculture has granted approval for the importation of lumber that's been heat-treated to ensure pests aren't hiding in shipments. De Jong wants to increase Canadian lumber shipments to India as they have been to China.

Carrier Lumber President Bill Kordyban said to Opinion250 that diversification of markets will benefit companies like his. The current value of Canada's annual wood exports to India is \$40 million dollars. India has the world's fourth largest economy when measured on a purchasing power parity basis.

Brian Zak, Market Access and Phytosanitary Specialist for Canada Wood, explained to *Madison's* in an email that lumber exporters still require three separate import permits for the Spruce, Pine and Fir - as India does not recognize the collective SPF grouping in Schedule 6 of their Regulations.

"Use the following Latin names when requesting Import Permits - see the "Exports Procedures" below: Spruce species allowed - *Picea engelmannii* or *Picea glauca*; Pine species allowed - *Pinus contorta*; Alpine fir species allowed - *Abies lasiocarpa*.

"Secure your Import Permits first (where applicable) - by getting your Timber Agent or Customer in India to apply to their Ministry of Agriculture

"A Phytosanitary Certificate is required by India - which can be obtained from our CFIA: Once you have received your Import Permits, double check them to make sure they state the correct Latin

names and Phytosanitary requirements (match to the rules above); Contact CFIA for an inspection of the timber/lumber stock and provide a copy of the Import Permits to CFIA at the time of your CFIA Inspection Request; Your Phytosanitary Certificate is good for 2 weeks prior to the vessel departure date.

"Should you have any specific questions you should contact your CFIA office representative. <http://www.inspection.gc.ca/english/plaveg/for/cwpc/chtwp-cpce.shtml>"

Zak further explained that to date the cedar notification process remains unclear. *Madison's* will inform subscribers of any developments on that front as soon as they happen.

Home Sales, US

CONTINUED November demand for used homes increased by 5.6 per cent to a seasonally adjusted annual rate of 4.68 million, the National Association of Realtors said December 23.

Still, the price for an existing home edged up for the first time since August, to US\$170,600 in November. That's up 0.4 per cent from the year-ago median price of US\$170,000 and an improvement from a downwardly revised US\$170,400 in October.

A high level of unsold homes has contributed to the recent drop in prices. The inventory of previously owned homes listed for sale shrunk by 4 per cent at the end of November to 3.71 million available for sale. That represented a 9.5-month supply at the current sales pace, compared with a 10.5-month supply in October.

November sales of new homes increased by 5.5 per cent compared to the prior month, rising to a seasonally adjusted annual pace of 290,000, the Commerce

Department said December 24.

The median sales price for a new home dropped by 2.7 per cent on a year-over-year basis to US\$213,000.

The number of new homes available for sale slid in November to 197,000, a supply that would take 8.2 months to exhaust at the current sales rate. A six-month supply of new homes is considered healthy. The months' supply in October was 8.8.

November's new-home sales figure is down 21.2 per cent from a year earlier, a time when buyers rushed to market with the promise of a tax credit. The incentive expired in April and sales have since floundered.

Uncertainty about the direction of home prices has discouraged buying. High unemployment is turning people away from the market, too. And among those brave enough to sign a contract for a home, some can't because they're unable to get financing.

Calendar

January 2011

2011 Truck Loggers Association Convention and Trade Show
January 19 & 20 - Victoria, BC
<http://www.tla.ca/>

February 2011

PaperWeek Canada 2011
February 1 to 3 - Montreal, QC
<http://www.paptac.ca/>

2011 ABCFP Forestry Conference & AGM
February 24 & 25 - Vancouver, BC
<http://www.expofor.ca/index.htm>

Mountain Pine Beetle, Alberta

CONTINUED Alberta's action to remove infested trees, coupled with help from Mother Nature, are responsible for the lower number of attacked trees this fall, a government press release in November explained. Removing infested trees reduced the number of beetles that hatched last summer to attack healthy trees, while extreme temperature fluctuations last winter caused higher than normal mortality among beetles.

Aerial surveys, completed in August and September, pinpoint locations and counts of trees attacked in 2009 and 2010. Results are combined with the findings of beetle population trend surveys conducted last spring to determine where and how much removal of infested trees will occur in the coming year. Operational plans for removing infested trees were developed this autumn.

"We are holding our own against the pine beetle," explained Duncan MacDonnell of Alberta Sustainable Resource Development to *Madison's* in a phone interview Thursday.

"The aerial surveys showed that there are still some hot spots from the massive inflights of 2009. 169,000 trees will be cut and burned from areas of priority in west-central Alberta to prevent the pine beetle from spreading further.

"There were no beetle inflights in the summer of 2010, overwinter mortality rates at the end of January and in February 2010 were at peak levels according to our spring mortality surveys," summed up MacDonnell. "Spring 2011 surveys will show if this winter season mortality rates are also high.

Australia Under Water

Australia had its third-wettest year on record during 2010, according to the Bureau of Meteorology, which said Friday that showers and storms will continue across Queensland into next week.

About 200,000 people scattered across an area the size of France and Germany combined have been affected by the flooding and three people killed. Damage from the floods, the worst in the state in 50 years, has been estimated at US\$5 billion.

Fresh flooding was forecast downstream as a result of more monsoon rains.

The muddy inland sea has stranded some of Australia's best beef cattle on tiny islands, and destroyed wheat and sugar crops.

Australia's US\$50 billion coal export industry has been brought to a virtual

standstill. The floods have swamped mines in Queensland state, paralysing operations that produce 35 per cent of Australia's estimated 259 million tonnes of exportable coal. Australia contributes two-thirds of global coking-coal exports, needed to make steel.

Queensland also produces 95 per cent of Australia's sugar.

One commodities analyst estimated that 45 to 50 million tonnes of metallurgical-grade coal needed to make steel were under force majeure declarations.

The floods have cut production of coal by about 4.5 million metric tons since the start of December, Colin Hamilton, an analyst at Macquarie Group Ltd., said in an e-mail to Bloomberg.

Asian steel-makers are anxious about Australian supplies, worried the disruptions could outlast their stockpiles, which typically are worth around a month's consumption.

Analysts at Macquarie, Morgan Stanley and Daiwa Capital Markets expect steel coals to rise as much as a third to US\$300 a tonne in the aftermath of the floods, pushing thermal coal prices higher in the process.

Some infrastructure in Australia's flood-hit Queensland state could take years to rebuild, the head of the flood recovery taskforce, Major-General Mick Slater, said on Friday.

The floods have affected 22 towns and cities across Queensland.

Green Transformation Funding

Prime Minister Stephen Harper was in Windsor, Quebec Thursday to announce an investment of \$24.8 million for Domtar under the Pulp and Paper Green Transformation Program. Domtar received \$143.5 million under this program in 2009. That is the largest amount given to a single company. This year's final investment of \$24.8 million will be used by Domtar for two capital projects.

The Twin Rivers Paper Company in Edmundston, New Brunswick, received \$21 million also on Thursday. The mill plans to use the investment for upgrades that will improve the mill's environmental performance while producing enough thermal energy to heat more than 1,200 homes.

Minister of Natural Resources Christian Paradis announced Thursday that Irving Paper will receive \$10.4 million. Irving Paper will use the investment to upgrade two of its mills in Saint John, New Brunswick.

Brian Jean, Member of Parliament for Fort McMurray-Athabasca, and Parliamentary Secretary to the Minister of Transport, Infrastructure and Communi-

ties, announced Thursday that Alberta Pacific Forest Industries (Alpac) will be receiving \$62.9 million.

The Cariboo pulp mill in Quesnel, British Columbia will receive an investment of \$41.5 million. The Honourable Gary Lunn, Minister of State for Sport, and Dick Harris, Member of Parliament for Cariboo-Prince George co-announced the investment. The Cariboo mill will receive \$41.5 million to be used for upgrades.

New Prototype to Utilize Forest Residue

Collège Boréal's applied research division has unveiled a new prototype designed to make use of wood residues produced by forest harvesting activities.

Developed in partnership with forestry company Niska North Inc. and the Township of Chapleau, this prototype will initially be used to extract various essential oils from wood chips.

It was designed by Matthieu Desbois, a third-year student in Collège Boréal's Technologie du génie chimique (Chemical Engineering Technology) program, as part of the Research Project course.

"This winning combination allowed Collège Boréal to deliver this prototype after just six months of research and production, said Giroux to Sudbury Northern Life."

Alain Larocque, co-ordinator of the Technologie du génie chimique program and Matthieu Desbois' professor, emphasizes the expertise his student has acquired over the course of this project.

"To produce this prototype, a wide knowledge of chemical engineering was required.

Soda Creek Fire

An explosion caused a fire at Tolko's Soda Creek mill in Williams Lake, British Columbia, on Monday afternoon.

The explosion was caused by dust in one of the mill's motor control centres.

"Essentially it caused a fire inside the walls of the sawmill," said Williams Lake deputy fire chief Des Webster to the Williams Lake Tribune. "When we arrived we had smoke showing on the outside of the building. The fire had started to penetrate the outer walls in various spots."

The Williams Lake fire department called in the 150 Mile House fire department for backup. It was a tough fire to get at, but once an attack plan was determined, the fire was quickly extinguished. No one was injured and the damage is said to be minor.

The mill is still currently operating, but at a diminished capacity, while wiring is repaired.